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Polish Economic Reform: An Assessment

The Polish economic reform program, adopted at the ninth extraordinary party congress in July 1981, called for reduced central control over economic activity and a greater role for market forces in decisionmaking. The program has been implemented only partially, and thus far has had little impact on Poland's economic performance due to widespread opposition and fundamental economic obstacles to systemic reform. The announcement at the 10th PZPR congress last June that the reform program was entering a "second stage" amounted to an admission by the party of the need to revitalize the reforms, but the regime appears unwilling to make the unpopular decisions necessary to implement meaningful reforms. The Jaruzelski regime has retreated from the reforms in several key areas, and may be planning further recentralizing measures. [REDACTED]

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The reforms encounter opposition at nearly every level of the economic hierarchy because they entail a redistribution of authority, status, and responsibility:

- o Within the Council of Ministers, advocates of heavy industry, the so-called "metal eaters," oppose changes in investment policy that would divert resources to more efficient, consumer and export-oriented sectors.
- o In the branch ministries which have the power to grant subsidies, tax exemptions, and concessions, and where they rely on central orders to ensure the delivery of many key goods and services.
- o Among the entrenched middle level bureaucrats who view decentralization as a threat to their power and perquisites and work to maintain the status quo.
- o On the enterprise level managers are often ill-equipped to deal with the responsibilities of enhanced autonomy and fear accountability for shortcomings that are beyond their control.

[redacted]

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Moreover, the reform has not gained acceptance among workers, whose support is essential if the reforms are to revive Poland's stagnant economy. They equate reform with wage controls, price hikes, and possible unemployment and therefore resist change.

- o Consistent reporting of worker grievances over wages and prices suggests that workers are unwilling to make sacrifices and work harder in the face of increased need for belt-tightening. [redacted]
- o Support for the reforms and improved productivity are unlikely unless the regime reestablishes dialogue with society and gives workers some say in their political destiny.

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For its part, the Jaruzelski regime also appears to be reluctant to go through with the unpopular measures necessary to balance the economy and rationalize resource allocation for fear of renewed worker unrest triggered by price increases and supply gaps:

- o Recently expanded limits on the market-based price system for some goods has essentially negated the effects of price reforms, preserving central control over prices and resource

[redacted]

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allocation, and undermining the goal of making enterprises financially self-reliant.

- o Subsidies for both consumers and producers have not been reduced. Despite provisions that would allow the bankruptcy of inefficient firms and displacement of workers, subsidies will command about 30 percent of the central budget in 1986, propping up inefficient producers and retarding progress toward economic restructuring.
- o Monopoly producers continue to dominate many key industrial sectors and maintain concessionary treatment. The forced merger of insolvent firms with healthy ones--rather than permitting bankruptcy--contributes to further monopolization of some sectors. [redacted]

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The regime also has retreated somewhat from the reforms in the area of workers rights:

- o Responsibility for wage policy and wage negotiations has been transferred from workers' self-management councils to the official trade unions, probably because the latter are more responsive to the central government's wishes.
- o The workers' councils' authority to select enterprise managers also has been restricted. [redacted]

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Pending amendments to the 1982 laws, which provide the basis for the economic reform, have in the past month encountered criticism in the Sejm as contrary to the reform program:

- o The regime reportedly is considering wage restraints, price restructuring, tighter control over credit, gradual reduction of subsidies, and increased central control over the private sector.
- o These measures, which will probably be discussed at a central committee plenum in December, will be unpopular and would probably be implemented only in a limited degree. [redacted]

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Despite the variety of obstacles limiting Poland's reform program, the regime seems to be aware that there are good political and economic reasons to continue to champion the reforms:

- o Jaruzelski's political platform still rests heavily on the themes of reform and renewal, as illustrated at the PZPR congress in June.

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- o Moscow's current efforts at improving the efficiency of the Soviet economy encourage economic experimentation and more candid criticism of economic deficiencies in Eastern Europe.
- o Warsaw's pressing need to secure new credits from the IMF and from Western commercial banks and governments is also an incentive for pushing economic reforms. [REDACTED]

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The leadership is taking steps to consolidate its control over the provincial and local party apparatus which may, in time, help it to overcome some of the entrenched resistance to economic reform:

- o New first secretaries were elected in seven of Poland's forty-nine provinces at party conferences this fall, but none of the first secretaries in the largest and most industrialized provinces were replaced in 1986.
- o The regime has begun a cadre and organizational review to weed out party and government bureaucrats that obstruct its policies. [REDACTED]

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We believe that the progress on economic reform ultimately will depend on Warsaw's political gestures that would facilitate a genuine accommodation with the populace and help rebuild social consensus. These developments--which we consider unlikely--in turn would make needed austerity measures more palatable to the populace:

- o The creation of a social consultative council as a genuine forum for dissenting views on political and economic policy.
- o Empowering the council with the authority to influence domestic policies. [REDACTED]

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